

SOUTH DAVIS METRO FIRE AGENCY

FINANCIAL STATEMENTS
with
INDEPENDENT AUDITORS' REPORTS

DECEMBER 31, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
South Davis Metro Fire Agency

We have audited the accompanying basic financial statements of South Davis Metro Fire Agency as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of South Davis Metro Fire Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Davis Metro Fire Agency as of December 31, 2005, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 9, 2006, on our consideration of South Davis Metro Fire Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages four through six is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

May 9, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the South Davis Metro Fire Agency's (the Agency) annual financial report presents our analysis of the Agency's financial performance during the year ended December 31, 2005. We encourage readers to consider the information presented here in conjunction with the financial statements and accompanying notes to enhance their understanding of the Agency's financial activities.

Financial Highlights:

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$2,978,288 (net assets). Of this amount, \$834,217 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Agency's total net assets increased by \$852,610.

Overview of Financial Report:

This annual report consists of two parts: Management's Discussion and Analysis and Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

The Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A represents management's analysis of the Agency's financial condition and performance.

The Financial Statements report information about the Agency using full accrual accounting methods as utilized by similar business activities in the private sector. They include a balance sheet; a statement of revenues, expenses and changes in net assets; a statement of cash flows; and notes to the financial statements. The balance sheet presents the financial position of the Agency on a full accrual historical cost basis. While the balance sheet provides information about the nature and amount of resources and obligations at year end, the statement of revenues, expenses and changes in net assets presents the results of business activities over the course of the year and information as to how the net assets changed during the year. The statement of cash flows presents changes in cash and cash equivalents, resulting from operating, non-capital and related financing, capital and related financing, and investing activities. In other words, it provides information regarding where the cash came from and how it was used, and the change in cash balance during the reporting period. The notes to the financial statements provide required disclosures and other information that are essential to the full understanding of material data provided in the statements. The notes present information about the Agency's accounting policies, significant account balances, obligations, commitments, contingencies and subsequent events, if any.

Financial Analysis:

To begin our analysis, a summary of the Agency's balance sheet is presented in the schedule below. Since this is the first year of the Agency's existence, a comparison to the prior year is not available. In future years, this section will discuss and analyze significant differences between years.

**South Davis Metro Fire Agency
Condensed Balance Sheet**

	<u>2005</u>
Current and Other Assets	\$ 4,615,749
Capital Assets	<u>2,036,387</u>
Total Assets	<u>\$ 6,652,136</u>
Current Liabilities	\$ 3,673,848
Noncurrent Liabilities	—
Total Liabilities	<u>3,673,848</u>
Net Assets Invested in Capital Assets, Net of Related Debt	2,036,387
Net Assets Restricted	107,684
Net Assets Unrestricted	<u>834,217</u>
Total Net Assets	<u>2,978,288</u>
Total Liabilities and Net Assets	<u>\$ 6,652,136</u>

The balance sheet includes all of the Agency's assets and liabilities, and net assets which is categorized as either invested in capital assets, net of related debt; restricted; or unrestricted. Net assets may serve as a useful indicator of a government's financial position. As can be seen from the schedule above, assets exceeded liabilities by \$2,978,288 at the end of the year. The largest portion of the Agency's net assets, \$2,036,387 (68.4%), reflects its investment in capital assets (e.g., land, buildings, equipment, and vehicles). The Agency uses these capital assets in its daily operations; consequently, they are not available for future spending. An additional portion of the Agency's net assets, \$107,684 (3.6%) represents resources that are subject to external restrictions on how they may be used.

While the balance sheet shows the change in financial position of net assets, the summary of the Agency's statement of revenues, expenses, and changes in fund net assets, provides information regarding the nature and source of these changes as seen in the following schedule. Net assets increased in 2005 by \$852,610.

**South Davis Metro Fire Agency
Condensed Statement of Revenues, Expenses, and Changes in Fund Net Assets**

	<u>2005</u>
Operating Revenues	\$ 5,593,101
Nonoperating Revenues	<u>735,109</u>
Total Revenues	<u>6,328,210</u>
Depreciation Expense	214,929
Other Operating Expense	5,260,671
Nonoperating Expense	—
Total Expenses	<u>5,475,600</u>
Change in Net Assets	852,610
Net Assets - Beginning of Year	<u>2,125,678</u>
Net Assets - Ending of Year	<u>\$ 2,978,288</u>

Capital Asset and Debt Administration:

The Agency's investment in capital assets as of December 31, 2005, amounts to \$2,036,387 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, equipment, and vehicles. The Agency's investment in capital assets for the current fiscal year increased by \$342,745 (20.2%) overall.

Major capital asset events during the current fiscal year included the following:

- Purchase of land for new fire station – \$250,000
- Purchase of ambulance – \$104,000
- Sale of land – \$(100,000)
- Purchase of compressor and trailer – \$84,000
- Purchase of two paramedic vehicles – \$76,000

Capital Assets Net of Depreciation

	<u>2005</u>
Land	\$ 285,975
Buildings and improvements	422,741
Equipment	480,673
Vehicles	<u>846,998</u>
 TOTAL	 <u>\$ 2,036,387</u>

Additional information on the Agency's capital assets can be found in Note 4.

Final Comments:

This financial report is designed to provide taxpayers, customers and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions regarding this report or need additional financial information, contact the Finance Officer of the South Davis Metro Fire Agency, P.O. Box 1547, Bountiful, Utah 84011-1547.

SOUTH DAVIS METRO FIRE AGENCY

BALANCE SHEET

DECEMBER 31, 2005

	Enterprise Funds		
	Fire Services	South Davis Fire District	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 478,876	\$ 475,196	\$ 954,072
Accounts receivable (net of allowance for uncollectibles)	286,788	—	286,788
Due from other funds	—	107,684	107,684
Due from other governmental units	—	3,100,000	3,100,000
Prepays	<u>59,521</u>	<u>—</u>	<u>59,521</u>
TOTAL CURRENT ASSETS	<u>825,185</u>	<u>3,682,880</u>	<u>4,508,065</u>
Noncurrent assets:			
Capital assets:			
Land	—	285,975	285,975
Buildings and improvements	—	686,588	686,588
Equipment	153,142	458,900	612,042
Vehicles	53,574	1,967,180	2,020,754
Less accumulated depreciation	(16,978)	(1,551,994)	(1,568,972)
Restricted cash and cash equivalents	<u>107,684</u>	<u>—</u>	<u>107,684</u>
TOTAL NONCURRENT ASSETS	<u>297,422</u>	<u>1,846,649</u>	<u>2,144,071</u>
TOTAL ASSETS	<u>\$ 1,122,607</u>	<u>\$5,529,529</u>	<u>\$ 6,652,136</u>
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 30,660	\$ —	\$ 30,660
Accrued liabilities	81,168	—	81,168
Accrued dispatch fees	125,000	—	125,000
Compensated absences	229,336	—	229,336
Due to other funds	107,684	—	107,684
Due to other governmental unit	<u>—</u>	<u>3,100,000</u>	<u>3,100,000</u>
TOTAL CURRENT LIABILITIES	<u>573,848</u>	<u>3,100,000</u>	<u>3,673,848</u>
TOTAL LIABILITIES	<u>573,848</u>	<u>3,100,000</u>	<u>3,673,848</u>
NET ASSETS			
Invested in capital assets, net of related debt	189,738	1,846,649	2,036,387
Restricted for capital projects	—	107,684	107,684
Unrestricted	<u>359,021</u>	<u>475,196</u>	<u>834,217</u>
TOTAL NET ASSETS	<u>548,759</u>	<u>2,429,529</u>	<u>2,978,288</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,122,607</u>	<u>\$5,529,529</u>	<u>\$ 6,652,136</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAVIS METRO FIRE AGENCY

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS**

DECEMBER 31, 2005

	Enterprise Funds		
	Fire Services	South Davis Fire District	Total
OPERATING REVENUES:			
Intergovernmental	\$ 4,291,276	\$ —	\$ 4,291,276
Charges for services:			
Ambulance and paramedic fees, net	1,284,945	—	1,284,945
Other services	3,728	—	3,728
Other	11,553	1,599	13,152
 TOTAL OPERATING REVENUES	 5,591,502	 1,599	 5,593,101
OPERATING EXPENSES:			
Salaries and wages	3,130,450	—	3,130,450
Employee benefits	1,152,418	1,613	1,154,031
Travel and training	35,841	—	35,841
Office and other supplies	62,034	22,743	84,777
Repairs and maintenance	135,285	—	135,285
Utilities	96,709	2,412	99,121
Dispatch fees	125,000	—	125,000
Professional services	51,771	—	51,771
Insurance	64,921	—	64,921
Clothing allowance	67,916	—	67,916
Medical supplies	65,840	—	65,840
Depreciation	16,978	197,951	214,929
Bad debt expense	82,560	—	82,560
Small equipment	61,457	46,792	108,249
Miscellaneous	54,909	—	54,909
 TOTAL OPERATING EXPENSES	 5,204,089	 271,511	 5,475,600
 OPERATING INCOME (LOSS)	 387,413	 (269,912)	 117,501
NONOPERATING REVENUES (EXPENSES):			
Grants	147,875	101,293	249,168
Impact fees	—	303,752	303,752
Investment earnings	13,271	13,765	27,036
Gain on sale of capital assets	200	154,953	155,153
 TOTAL NONOPERATING REVENUES (EXPENSES)	 161,346	 573,763	 735,109
 CHANGE IN NET ASSETS	 548,759	 303,851	 852,610
 TOTAL NET ASSETS – BEGINNING	 —	 2,125,678	 2,125,678
 TOTAL NET ASSETS – ENDING	 \$ 548,759	 \$ 2,429,529	 \$ 2,978,288

The notes to the financial statements are an integral part of this statement.

SOUTH DAVIS METRO FIRE AGENCY

STATEMENT OF CASH FLOWS

DECEMBER 31, 2005

	Enterprise Funds		
	Fire Services	South Davis Fire District	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 1,013,438	\$ 124,792	\$ 1,138,230
Receipts from member entities	4,291,276	—	4,291,276
Payments to suppliers	(726,936)	(96,392)	(823,328)
Payments to employees	(4,053,532)	(90,750)	(4,144,282)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	524,246	(62,350)	461,896
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Grants	147,875	101,293	249,168
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	147,875	101,293	249,168
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Impact fees received	107,684	242,937	350,621
Acquisition and construction of capital assets	(206,716)	(454,977)	(661,693)
Proceeds from sale of capital assets	200	258,972	259,172
NET CASH PROVIDED BY (USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:	(98,832)	46,932	(51,900)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	13,271	13,765	27,036
NET CASH PROVIDED BY INVESTING ACTIVITIES	13,271	13,765	27,036
NET INCREASE IN CASH AND CASH EQUIVALENTS	586,560	99,640	686,200
CASH AND CASH EQUIVALENTS – BEGINNING	—	375,556	375,556
CASH AND CASH EQUIVALENTS – ENDING	\$ 586,560	\$ 475,196	\$ 1,061,756

The notes to the financial statements are an integral part of this statement.

SOUTH DAVIS METRO FIRE AGENCY

STATEMENT OF CASH FLOWS (CONTINUED)

DECEMBER 31, 2005

	<u>Enterprise Funds</u>		
	<u>Fire Services</u>	<u>South Davis Fire District</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:			
Operating income (loss)	\$ 387,413	\$ (269,912)	\$ 117,501
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	16,978	197,951	214,929
Changes in operating assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	(286,788)	123,193	(163,595)
Prepays	(59,521)	(1,898)	(61,419)
Increase (decrease) in:			
Accounts payable	30,660	(6,539)	24,121
Accrued liabilities	81,168	(16,008)	65,160
Accrued dispatch fees	125,000	—	125,000
Compensated absences	229,336	(89,137)	140,199
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 524,246</u>	<u>\$ (62,350)</u>	<u>\$ 461,896</u>

The notes to the financial statements are an integral part of this statement.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The South Davis Metro Fire Agency (the "Agency") was organized in October 2004, in accordance with the Interlocal Cooperation Act, by Bountiful City, Centerville City, Davis County, North Salt Lake City, West Bountiful City, and Woods Cross City. The Agency was created for the purpose of providing fire protection and ambulance and paramedic emergency services, and commenced operations on January 1, 2005. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize they are legally separate from the government. The South Davis Metro Fire Agency has no discretely presented component units and is itself not a component unit of any other entity. The blended component unit has a December 31 year end.

Blended Component Unit

The South Davis Fire District (the "District") was originally organized in July 1981 through an interlocal agreement and includes Centerville City, Davis County, North Salt Lake City, West Bountiful City, and Woods Cross City. Effective January 1, 2005, on the date that the new interlocal agreement forming the Agency took affect, the District became a component unit of the Agency. Because five of the six member entities in the Agency also comprise the governing body of the District, the financial data is included in the reporting entity using the blended method.

Complete financial statements for the component unit may be obtained at from the District's finance officer.

Finance Officer
P.O. Box 1547
Bountiful, UT 84011-1547

Subsequent to December 31, 2005, South Davis Fire District was dissolved by its five member entities. All assets of the former District were transferred to and will be held in trust by the Agency to the benefit of the members of the District.

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Agency's funds are enterprise funds, which are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Measurement Focus, Basis of Accounting, and Financial Statement Presentation **(continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Agency are intergovernmental revenues received from the Agency's six member entities and charges to customers for ambulance and paramedic services. Operating expenses include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use the restricted resources first, then unrestricted resources as they are needed.

C. Budgetary Procedures and Budgetary Accounting

Budgetary procedures for the Agency have been established by the Uniform Fiscal Procedures Act adopted by the State of Utah, which requires the legal adoption of a budget for all funds. Furthermore, in accordance with state law, all appropriations lapse at the end of the budget year; accordingly, no encumbrances are recorded. The basis of accounting applied to each fund budget is the same basis as the related fund's financial statements.

A formal budget has been adopted and used as a control device during the year ended December 31, 2005. State law allows the Agency to amend the proprietary funds budget without public hearing or public notice.

No budget is required to be presented in these financial statements.

D. Cash and Cash Equivalents

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

For purposes of the statement of cash flows, all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased are considered to be cash equivalents.

E. Capital Assets

Capital assets include land, buildings, improvements, equipment, and vehicles. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Capital Assets (continued)

estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-50
Improvements	30-50
Equipment	5-20
Vehicles	5-15

F. Compensated Absences

All vacation pay is accrued when incurred. Accrued vacation is accumulated and up to 240 hours may be carried over into the next year. In the event of termination, employees are reimbursed for the entire amount of accumulated vacation. Accrued sick leave is accumulated and may be carried forward from one year to another without limit. In the event of termination, employees receive no benefit for accrued unused sick leave unless they are retiring. Retiring employees receive a cash pay out ranging from 20% to 33 1/3%, based on the number of years worked with the Agency. The maximum number of hours paid will not exceed 320 hours. At its inception (January 1, 2005), the Agency assumed the accrued vacation liabilities of South Davis Fire District and Bountiful City's Fire Department.

G. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the Agency to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

2. DEPOSITS AND INVESTMENTS

The State of Utah Money Management Council has the responsibility to advise the State Treasurer about investment policies, promote measures and rules that will assist in strengthening the banking and credit structure of the state and review the rules adopted under the authority of the State of Utah Money Management Act that relate to the deposit and investment of public funds.

The Agency follows the requirements of the Utah Money Management Act (*Utah Code*, Section 51, Chapter 7) in handling its depository and investment transactions. The Act requires the depositing of Agency funds in a qualified depository. The Act defines a qualified depository as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the State Commissioner of Financial Institutions as meeting the requirements of the Act

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

and adhering to the rules of the Utah Money Management Council.

A. Deposits

	<u>Bank Balances</u>	<u>Book Balances</u>
Cash on hand	\$ —	\$ 100
Cash on deposit	<u>251,589</u>	<u>116,871</u>
 TOTAL	 <u>\$ 251,589</u>	 <u>\$ 116,971</u>

Custodial Credit Risk: Custodial credit risk is the risk that, in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, \$104,312 of the Agency's bank balances of \$251,589 was uninsured and uncollateralized.

B. Investments

The Money Management Act defines the types of securities authorized as appropriate investments for the Agency and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

Statutes authorize the Agency to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury, including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "a" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer.

The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, *Utah Code Annotated, 1953*, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses-net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (continued)

As of December 31, 2005, the Agency had the following investments and maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
State of Utah Public Treasurer's Investment Fund	\$ 944,785	\$ 944,785	\$ —	\$ —	\$ —
Totals	\$ 944,785	\$ 944,785	\$ —	\$ —	\$ —

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Agency's policy for managing its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. Except for funds of Institutions of Higher Education acquired by gifts, grants, or the corpus of funds functioning as endowments, the Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptances, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding two years.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Agency's policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed. As of December 31, 2005, the Agency's investments in the State of Utah Public Treasurer's Investment Fund were unrated.

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Agency's policy for reducing the risk of loss is to comply with the Rules of the Money Management Council. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5%-10% depending upon total dollar amount held in the portfolio.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency does not have a formal policy for custodial credit risk.

3. ACCOUNTS RECEIVABLE

At December 31, 2005, an allowance for doubtful accounts of \$62,000 has been offset against accounts receivable to record estimated future losses.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 136,450	\$ 249,675	\$ (100,150)	\$ 285,975
Total capital assets, not being depreciated	<u>136,450</u>	<u>249,675</u>	<u>(100,150)</u>	<u>285,975</u>
Capital assets being depreciated:				
Buildings and structures	\$ 680,588	\$ 6,000	\$ -	\$ 686,588
Equipment	401,701	210,341	-	612,042
Vehicles	<u>1,894,813</u>	<u>195,677</u>	<u>(69,736)</u>	<u>2,020,754</u>
Total capital assets being depreciated	<u>2,977,102</u>	<u>412,018</u>	<u>(69,736)</u>	<u>3,319,384</u>
Less accumulated depreciation for:				
Buildings and structures	(249,411)	(14,436)	-	(263,847)
Equipment	(85,688)	(45,681)	-	(131,369)
Vehicles	<u>(1,084,811)</u>	<u>(154,812)</u>	<u>65,867</u>	<u>(1,173,756)</u>
Total accumulated depreciation	<u>(1,419,910)</u>	<u>(214,929)</u>	<u>65,867</u>	<u>(1,568,972)</u>
Total capital assets, being depreciated, net	<u>1,557,192</u>	<u>197,089</u>	<u>(3,869)</u>	<u>1,750,412</u>
CAPITAL ASSETS, NET	<u>\$ 1,693,642</u>	<u>\$ 446,764</u>	<u>\$ (104,019)</u>	<u>\$ 2,036,387</u>

5. DUE FROM/DUE TO OTHER GOVERNMENTAL UNITS

The interlocal cooperation agreement forming the Agency requires that the five member entities of the South Davis Fire District provide \$3,100,000 in capital improvements to the Agency before Bountiful City is required to pay its proportionate share of any additional assessments related to capital improvements. Accordingly, a due from other governmental units balance of \$3,100,000 is recorded in the South Davis Fire District fund, representing amounts owing from the five member entities of the District. A corresponding due to other governmental unit balance is recorded in the South Davis Fire District fund, representing the amount owing to Bountiful City at December 31, 2005.

6. LINE-OF-CREDIT

During the year, the Agency obtained a line-of-credit with a financial institution in the amount of \$500,000. The Agency did not utilize the line-of-credit during the year, and it matured on December 31, 2005.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

7. EMPLOYEE RETIREMENT PLANS

Plan Description

The Agency contributes to the Local Governmental Noncontributory Retirement System (Noncontributory System) and the Firefighters Retirement System (Firefighters System) which is for employers without Social Security coverage, all of which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide refunds, retirement benefits, annual cost of living adjustment, and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement Systems, and Firefighters Retirement System, which are for employers without Social Security coverage. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling (800) 365-8772.

Funding Policy

In the Local Governmental Noncontributory Retirement System, the Agency is required to contribute 11.09% of their annual covered salary. In the Firefighters Retirement System for employers without Social Security, covered plan members are required to contribute 8.61% of their annual covered salary (all was paid by the employer for the employee). The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The Agency's contributions for the Noncontributory Retirement System for the year ended December 31, 2005 was \$6,937 on covered salaries of \$62,551. The Firefighters Retirement System contributions for the year ended December 31, 2005 was \$155,302 on covered salaries of \$1,803,726. The contributions were equal to the required contributions for each year.

401(k) Plan

Employees of the Agency may also participate in a 401(k) plan administered by the System. The Agency's contributions to the Plan for the year ended December 31, 2005 was \$234,445. Employee contributions made to the 401(k) plan for 2005 were \$47,786.

8. DEFERRED COMPENSATION PLAN

The Utah Retirement Systems have adopted Governmental Accounting Standards Board Statement 32 (GASB No. 32), *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This resulted in reporting the 457 Plans as a "Trust Fund" rather than as an "Agency Fund". Currently, all of the assets and income of the 457 Plan are held in trust by the Utah Retirement Systems for the exclusive benefit of the participants or their beneficiaries rather than as assets of the Agency. The Agency made no contribution to the plan during 2005.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. COMMITMENTS

Operating Leases

North Salt Lake City and the District entered into an agreement whereby North Salt Lake City agreed to make available to the District approximately 7,140 square feet of space located in the North Salt Lake City Office Complex. From June 30, 1999 until June 30, 2037, or the life of the agreement, North Salt Lake City shall charge the District only the actual costs of providing insurance and utilities to the portion of the building occupied by the District. For the year ended December 31, 2005 the District paid \$9,596 to North Salt Lake City on this lease.

Centerville City and the District entered into an agreement on October 2, 1995, whereby the City agreed to lease to the District the real property commonly known as Station No. 3. A nominal sum of \$1 per year is required and the lease has a term of fifty years.

The District pays a drainage tax to Centerville City. Total expense for the year ended December 31, 2005 amounted to \$312.

10. RELATED PARTIES

The Agency is operated by tax revenues supplied by the six member entities. The governing board is comprised of the officials of these entities. During the year ended December 31, 2005, these entities provided the following revenues to the Agency for its operations:

Bountiful City	\$ 1,669,573
Centerville City	599,653
Davis County	138,018
North Salt Lake City	752,382
West Bountiful City	251,831
Woods Cross City	<u>379,819</u>
	 <u>\$ 3,791,276</u>

The Agency has also entered into an interlocal cooperation agreement with Davis County. Under the agreement, the Agency is required to house and operate two paramedic units in the County. In return, the Agency receives \$250,000 per unit per year from the County's imposed paramedic and ambulance levy. The Agency received \$500,000 from the County during 2005. This amount, along with the above amounts paid by the six member entities, is reported as intergovernmental revenue in the statement of revenues, expenses, and changes in fund net assets.

Dispatch services for the Agency were provided by Bountiful City during the year ended December 31, 2005. Total dispatch fee expense for the year amounted to \$125,000 and was accrued at December 31, 2005. Although no formal written agreement is in place, Bountiful City will continue to provide dispatch services for the Agency in 2006 at a cost of \$125,000.

SOUTH DAVIS METRO FIRE AGENCY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. SUBSEQUENT EVENTS

Subsequent to December 31, 2005, the Agency entered into an agreement with an architect for the design of a new fire station in the amount of \$147,000.



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
South Davis Metro Fire Agency

We have audited the financial statements of South Davis Metro Fire Agency as of and for the year ended December 31, 2005, and have issued our report thereon dated May 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether South Davis Metro Fire Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South Davis Metro Fire Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Board of Directors, management, and applicable regulatory agencies. It is not intended to be and should not be used by anyone other than these specified parties.

May 9, 2006



PINNOCK, ROBBINS, POSEY & RICHINS

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INDEPENDENT AUDITORS' REPORT ON STATE OF UTAH LEGAL COMPLIANCE

Board of Directors
South Davis Metro Fire Agency

We have audited the financial statements of South Davis Metro Fire Agency for the year ended December 31, 2005, and have issued our report thereon dated May 9, 2006. The Agency received the following nonmajor grants, which are not required to be audited for specific compliance requirements. However, these programs were subject to testwork as part of the audit of the Agency's financial statements.

FEMA Fire fighters Grant
EMS Grant Equipment
CERT Grant

Our audit included test work on the Agency's compliance with the following general compliance requirements identified in the State of Utah Legal Compliance Audit Guide:

Cash Management
Purchasing Requirements
Budgetary Compliance
Special Districts
Other General Compliance Issues
Impact Fees

The Agency did not receive any major State grants during the year ended December 31, 2005.

The management of South Davis Metro Fire Agency is responsible for the Agency's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, South Davis Metro Fire Agency, complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

May 9, 2006